

## RENOVATION ROLLOUT ARTICLES

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### The Roots of Renovation

by Ken Panas

The first quarter of 2010 presented a number of sobering moments for the residents of our community. In January we became aware of the alarming fact that our reserves were lower than ever due to an aggressive renovation schedule, roof patch and flashing work in anticipation of a wet winter and considerable repairs for concealed conditions in the last pods resided. Then as the tensions with our general contractor increased, they resigned, putting an end to our relationship. The plans we had counted on for completing the renovations in the upper terrace and begin our work on lower terrace were sitting on the scrap heap.

There was however a benefit to this sorrowful state—an opportunity to consider the problems we were having with our first approach to renovating our community. Yes, we had reservations about the methods and practices of our general contractor, but beyond that we lacked construction standards and specifications for our community. We did not have construction drawings and details established. We did not have the proper field oversight. We did not follow through in inspecting his work and require that the general contractor complete a project to our satisfaction before moving on to the next. In short, the board was attracted by the favorable labor rates and markups offered by CPR and to expect them to manage the project in our best interest proved unrealistic.

A number of Terrace residents were stepping-up at this time. Kimberly McKinney was able to rally a group of volunteers in a long range plan for planting and other enhancements in our meadow. I personally sought to create a culture for renovation that would deal with the deficiencies listed above. Pat Cumine has counseled the board on construction matters for more than two years—his background as an engineer and consultant is rich with experience. Dede and John D'Alessandro were instrumental in providing old drawings for NT that we digitized to create individual site plans for Common Area Lighting and Common Area Power. Dede, Walter Pasternak, Steve Jones and I surveyed the NT site, plotted and created “As-Is” drawings. I mapped the location and type of common area lighting. Kimberly, Dede, Walter and Gail Dufour walked the complex at night with the map to identify broken lights and poles, and areas needing more light. Dede compiled all the data into a detailed spread sheet with locations, types, quantities and conditions for every site light fixture on premises. This was invaluable information for the design engineers in developing drawings and specifications to put “Common Area Lighting” out to bid.

At this same time, Dede and I with help from Walter, the board and others sought to identify all the finishes we have in NT as well as all the replacement products we were using in the planned renovation. From concrete to sheet metal to doors and windows and composite wood products, roofing, flashings, trim and more, we codified the products we have and believe we want to have for consideration in developing the specifications for our renovation. Michael Kiss, AIA has incorporated this information into the specifications for the Renovation. In going forward, future boards and management companies will have the Newport Terrace Architectural Standards available as a control document to prevent future contractors from using whatever products Home Depot is marketing to maintain the design consistency of Newport Terrace.

We also developed drawings to verify “Common Area Irrigation”, “Common Area Gas Service”, “Common Area CATV” and “Building Drainage Condition”. We still need to do the field survey work and record our findings on “As-Is” drawings. Once this is done we will develop the bid documents and obtain competitive bidding on the remaining infrastructure improvements with expected value engineering options to reduce the amount of the loan.

While these steps were necessary in putting forth a more successful effort in renovation, the key insight was that as a community of volunteers, we were poorly equipped to provide the construction management for the project and at this time I was still thinking we could build incrementally, out of available funds year after year. I have been involved in commercial and industrial construction locally for over 20 years, but the players qualified to do HOA are unfamiliar to me and require expertise and general liability coverage that leaves me spell bound.

I had been collecting the names of qualified Architects and Construction Management Companies for a couple of years as well as qualified HOA General Contractors. In the first half of 2010 I made contact with them, invited them one-on-one to meet for a “walk and talk” on site, showed them the work that has been done, revealed our ambitions and met with the board members who were available. This culminated in June 2010 with six architect/ construction managers making presentations to our board for managing the renovation of our community. During the same time period I personally walked 6 recommended and qualified General Contractors through our community to take a look at what we have done, garner their comments for moving forward with better quality and for consideration in being on our list of preferred bidders. Their comments and recommendations influenced our specifications for the renovation.

Much has happened since that time. The first choice of our board was a construction management firm that presented a contract that Pat Cumine and I (and David Cane) red-lined generously as not in our best interest to execute. When attempts failed to get acceptable modifications the board withdrew them from consideration and began negotiations with Michael Kiss and had satisfactory results. Plans and Specifications were developed and the work was put out to bid to six qualified General Contractors. One company stands out as the “lowest and best” candidate, however negotiations are not complete. The NT Construction Committee intends to be involved in the final contract negotiations. To do that we need the approval of our community and ask for your support. Ballots are in the mail.

As a resident-owner of 13 years, a former board member, committee member and current member of the Construction Committee I am completely committed to the renovation of Newport Terrace and believe that taking out a loan to accomplish this is the best and least painful way to accomplish a great thing for the majority of our neighbors. I also understand the reluctance some have expressed who lean in that direction but have concerns about the amount of the loan and the burden of interest. For those owners that oppose the proposed solution please feel free to contact me through our network. I continue to try to understand your thoughts as well.

I welcome the opportunity to participate in what is a tremendous venture—the necessary renovation of Newport Terrace and the return of the perception that this is a lovely place to be.

Ken Panas  
Construction Committee

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## **NEWPORT TERRACE RENOVATION**

by Pat Cumine

I believe it is safe to assume that everybody agrees that the Newport Terrace complex badly needs to be repaired and completely renovated.

There will be many opinions as to how this can be accomplished in whole or in part, either in a short time, or over an extended period of time.

If the work is done over a short period of time, say 18 months, then everybody’s unit will be restored at approximately the same time, give or take a few months and the work crews will be gone.

If the work is done over several years, say 10 years, then who wants to be in the last group to be renovated, 9 years from now and have work crews constantly in the complex for 10 years?

The other issue to be considered and probably foremost in most Homeowners’ minds, is the cost. Here are a number of scenarios to be considered:

- (1) An 18 month construction period with the \$8 million loan detailed at the Renovation Rollout presentation, repayable over 13.5 years starting after completion of the construction.  
Loan amount of \$8,000,000 plus interest cost of \$3,349,790 for a total of \$11,349,790 (inclusive of interest during the construction period).  
The majority of the anticipated \$8 million construction cost is supported by hard money contractor bids.
- (2) Progressive repairs and renovations over a 10 year period.  
The following general assumptions have been made in computing these costs.
  - (a) The basic \$8 million scope of work, conservatively, will cost 20% more because of the loss of economy of scale, continual mobilization and demobilization of contractors, loss of efficiency from new worker learning curve for each of the probable multiple contractors, loss of benefit of bulk buying of materials and possible unavailability in the later years of the specified product, contractors profit markup percentage on smaller projects is higher than on large projects.
  - (b) Inflation will return. Calculations for 2% and 3% have been made.
  - (c) Current on-going emergency repairs throughout the complex will continue as it ages even further and will increase 10% or 20% for the first 5 years, then diminish to \$0 at the end of year 10. The current annual repair cost of \$150,000 per year has been used in the calculations.
  - (d) HOA construction manager costs for 10 years instead of 18 months.

Utilizing the above criteria the following is a summary of my analysis:

RENOVATION CRITERIA	TOTAL COST	MONTHLY COST PER UNIT	
TOTAL 20% construction increase. 10% maintenance increase. 2% inflation	<b>\$11,983,194.97</b>	Monthly per Unit for 10 years	\$ 355.37
TOTAL 20% construction increase. 10% maintenance increase. 3% inflation	<b>\$12,527,863.15</b>	Monthly per Unit for 10 years	\$ 371.53
TOTAL 20% construction increase. 20% maintenance increase. 2% inflation	<b>\$12,402,504.40</b>	Monthly per Unit for 10 years	\$ 367.81
TOTAL 20% construction increase. 20% maintenance increase. 3% inflation	<b>\$12,966,314.16</b>	Monthly per Unit for 10 years	\$ 384.53
LOAN TOTAL COST	<b>\$11,349,790.00</b>	Monthly per Unit for 13.5 years	\$ 249.33

The loan monthly cost is fixed and could even come down if the interest rate at renewal year 10, is less than the 8.5% interest rate cap.

The 10 year monthly calculations are subject to ongoing economic conditions and could vary slightly up or down. If the cost of construction increase was 30% instead of the 20% calculated above, it would add almost \$1,000,000 more to the total 10 year cost.

Note: The above monthly rate costs are over and above the portion of the current dues required for the regular complex administration costs currently running at approximately \$200.00 per month. An amount for reserve allocation also needs to be considered in the monthly dues total amount.

To all homeowners ..... vote as your individual situation dictates ..... but please vote.

Thank you,

Pat Cumine  
Construction Committee

**Weighing your options**

by John Sisker, Florin Florescu and Bernice DeVries

This is a collaboration of three different authors; therefore this information is not just coming from me (John Sisker) alone as a Board member. The two other authors, Florin Florescu and Bernice DeVries, all worked hand-in-hand to make this more of a working class interpretation of just how the renovations would affect all of us in a positive way and to address some possible misconceptions.

The first thing we all thought that needs to be pointed out was, with a YES or NO vote, for or against this loan, there is no middle ground. We're starting to get the impression that some residents may actually think that a NO vote simply means not only no loan, but that the existing \$395 per month association dues will just remain the same, and all the sidings and roofs will be done on some general routine basis. Unfortunately, that is not even a remote possibility.

Simply put, a NO vote (or abstaining) means the Association will have to immediately take the first of many steps to raise the association dues, first to \$450, on the way up to \$795, with the risk of emergency special assessments as assets fail. The complex needs work fast; we will have to pay for it one way or another.

The facts of our current situation are that all our major assets are now basically failing and are at the end of their life cycle. The price point of Newport Terrace is below that of any other surrounding development simply because of the current conditions of our condos and the complex in general.

**Let's look at some results from a NO vote:**

- Renovations would take at least 10 years to complete
- There will be no significant property value increases during this same time period
- The Board can increase association fees 20% a year without any public vote to pay for these renovations
- Good possibility of emergency special assessments
- No organized schedule or uniformity for needed improvement
- Higher per household cost for maintenance than just the interest would have been for the loan
- Reserve Study shows our association dues should really be \$811 per month today

**However, with a YES vote:**

- Overall 10% - 15% property value increase in just 18 months
- Associations dues increase in reasonable increments to \$495 in 2014
- No special assessments anticipated
- Comparable association fees with other local complexes
- Newport Terrace would be the only complex in the area with open space and all new assets
- Our competition are other complexes built in the early 70's, which will still be aging
- At \$495 dues a month and brand new assets, we will have the edge
- Totally new complex in 18 months, instead of over 10 years
- No lien or cloud on your title. The loan is secured by the HOA's dues.
- Helps tilt the scale away from renters to on-site owners
- Once renovations are complete and the reserve study updated, FHA financing will be available

Residents historically move every 7 years. Are you thinking of selling now so you don't have to worry about it? By waiting just 18 months, with a YES vote, you can then do so for a lot more.

Sincerely,

- Florin Florescu, Resident
  - Bernice DeVries, Realtor
  - John Sisker, HOA Board
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